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SUBJECT: CSR in the Classroom and on the Factory Floor

(U) This message is sensitive but unclassified. Please handle accordingly.

¶1. (SBU) SUMMARY: Domestic factories are struggling to comply with multiple responsibilities that can complement one another but that may at times also be at variance with one another: their buyers' corporate social responsibility (CSR) codes of conduct and with government regulations on wages and work hours, according to participants in a recent training seminar run by U.S. NGO Business for Social Responsibility (BSR). A recent garment industry survey revealed that 70 percent of China's garment factories maintain fraudulent documents, 30 percent of the workers are paid below minimum wage, and almost all workers work more hours than legally permitted. Though factories can improve efficiency and increase wages through CSR practices, the transition from noncompliance to compliance is difficult and slow. END SUMMARY.

¶2. (SBU) During a visit by State DRL Program Officer Samuel Chang on May 15-16, Econoff and Chang attended the closing session of a CSR training program run by BSR, an organization that is funded in part by DRL. The nine-month series of classes for factory managers (mostly suppliers of multinational corporations) covered health and safety management, labor regulations, and reducing overtime through improved productivity. Chang and Econoff also visited a Hong Kong-owned garment factory in Dongguan that supplies Sears and other U.S. brands and that participated in the BSR training.

The Government Perspective

¶3. (SBU) Chinese officials are increasingly concerned with labor compliance in factories and are less tolerant of violations, according to the director of the Guangdong Labor and Social Security Bureau's Labor Association and Information Center, Gan Wenchuan. In addition, the new generation of migrant workers is less willing to work for low wages and is more aware of legal rights. Surprisingly, Gan was critical of the All-China Federation of Trade Unions (ACFTU), which he said is supposed to protect the rights of workers but instead protects the interests of enterprises. In response to a question from factory managers, Gan said that the Chinese government has shown no interest in raising the cap on overtime hours.

Factory Managers Discuss the Difficulties of Complying

¶4. (SBU) Factory managers said they are audited between 5 and 15 times per year by their various buyers - a process that leads to "audit fatigue." The buyers often have different and sometimes

conflicting codes of conduct regarding minimum wage and working hours. The factory managers also noted the challenge of educating senior management on CSR concepts and convincing them to make the necessary investments - particularly in the garment industry, where profit margins are tight. They also face greater scrutiny by the Chinese media regarding labor practices. Nevertheless, the managers highlighted their positive efforts, which include forming CSR committees with worker representatives, increasing training hours, and improving transparency. They noted that rotating workers regularly and publishing worker handbooks has also improved productivity.

Garment Industry Survey: Not a Pretty Picture

15. (SBU) A survey of labor compliance in the garment industry conducted by third-party firms hired by Sears revealed that the state of compliance among China's garment factories is "dismal." According to Sears Compliance Manager Johnny Wong, the survey found that 70 percent of garment factories in China keep fraudulent sets of documents in order to demonstrate compliance to buyers and government officials. In addition, 30 percent of workers at garment factories are paid below the minimum wage. The survey found that garment workers average between 70 and 90 hours of work per week, far above the legal limit of 49 hours (40 regular hours per week and 36 overtime hours per month). Overtime pay is typically not calculated differently than regular pay (which is usually on a piece-rate basis), and few factories pay all of the required social insurance fees to the government. Factories also frequently do not provide sufficient paid leave or use the required legal contracts, according to the survey.

16. (SBU) According to Sears' Wong, China's garment factories would not use false documents if buyers were willing to work with them to

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improve labor compliance gradually. He said Sears' Wage Research Improvement Program does this, but noted that progress has proven to be difficult and slow. In a separate conversation, Sears Director of Global Compliance Ian Spaulding said "many" of China's factories do not comply with PRC wage laws, and "none" comply with working hour laws. In part, this is because these laws do not reflect market realities - for example, migrant workers themselves want to work more than 49 hours per week to earn as much money as possible in a short period of time.

Garment Factory: Getting Better, but Still Not There

17. (SBU) Greenway, a factory in Dongguan that produces women's undergarments for Sears, Macy's, Nordstrums, and other U.S. brands, is still not fully compliant with labor laws but has made significant progress. According to the Hong Kong owners, until a few years ago, they kept false records and routinely underpaid workers. After working closely with Sears, and with training from BSR, they have been able to reduce the wage gap and improve productivity. Key to this is a new bonus system that provides additional incentives for workers. Average wages have increased by 10 percent over the past year, turnover has reduced from 6 percent to 3 percent, and the factory is not having trouble finding workers (as is the case with many factories in the Pearl River Delta). The factory also uses a UV light machine provided by the local police department to check for fake identification cards used by minors.

18. (SBU) Despite these improvements, the factory managers estimated that a few hundred of their approximately 5,000 workers do not receive the minimum wage. The average wage in the factory is RMB 1,500 (USD 196); Dongguan's minimum wage, including overtime, is RMB 1,200 per month (USD 157). Workers also continue to work more hours than legally permitted. The owners complained that their profits have fallen considerably during the past 10 years because of pricing pressure from buyers. Sears' Spaulding said he is encouraged by the factory's adoption of CSR principles and its improving compliance record, but highlighted the challenge of introducing change country-wide. Sears alone has 2,800 suppliers in China.

19. (U) DRL Program Officer Samuel Chang did not have an opportunity to review this cable.

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